Financials, part 1

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The basic elements

- Income statement
- Cash flow statement
- Balance sheet
- Sources and uses of funds
- Breakeven point
Definitions I

- Payables, receivables

- Assets
  - Current (deposits, inventory, receivables)
  - Fixed (property, plant, equipment)
  - Intangible (e.g. “goodwill”)

- Cost of goods sold
  - Supplies and materials
  - Direct labor (not administrative costs)
Definitions II

- Cost of sales - commissions, distribution fees
- Costs
  - Fixed
  - Variable
- Debt
- Depreciation (S/L, ACRS, DD)
- Equity
Definitions III

- **Profit**
  - Gross profit before expenses
  - EBIT
  - Net profit

- **Liabilities**
  - Current (any within current year, includes payables, payroll, credit lines)
  - Long-term (loans, but interest payments on loans are current liabilities)
General guidelines

- State all assumptions explicitly
- Enter key amounts as variables
- Bottom-up justifications, not top-down
- Include comparative figures
- Cite external sources for all relevant estimates of income or expenses
Overall structure

- Begin with company opening date
- First year in months
- Years 2-5 in quarters
- Income statement comes first
- Links among income, cash flow, and balance sheet
Outside the program, start with expenses, do only one year.

Then add pricing and volume variables.

Determine whether there is any profit, or even profit potential.

Revise if necessary.
Bumps on the income road

- Which expenses are really “fixed?”
- Are your salaries low enough?
- Are the selling expenses high enough?
- Are depreciable assets purchased with lump sums?
Variables over time

- Are people added?
- Are there seasonal variations in demand?
- When are the trade shows?
- What lag is there between payables and receivables?
- Are there changes in the debt structure to finance growth?
Percentages of sales

- Direct selling expenses
- Advertising (or not, and other marketing costs may not be)
- Wages (separately by hours rather than by price of goods)
- Taxes (but not licenses)